

# **ORANGE COUNTY SUPPLEMENTAL ASSESSMENT PRACTICES SURVEY**

## **FEBRUARY 2004**

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### **CALIFORNIA STATE BOARD OF EQUALIZATION**

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Interim Executive Director

No. 2004/010

February 20, 2004

TO COUNTY ASSESSORS:

ORANGE COUNTY  
SUPPLEMENTAL ASSESSMENT PRACTICES SURVEY

A copy of the *Orange County Supplemental Assessment Practices Survey Report* is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Webster J. Guillory, Orange County Assessor, was provided a draft of this report and elected to file a written response to the findings and recommendations contained in it. Pursuant to Government Code section 15646, this report is distributed to the Governor, the Attorney General, the State Legislature, and the Orange County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

The BOE's County Property Tax Division performed fieldwork for this supplemental survey of the Orange County Assessor's Office during May of 2003. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The survey process inherently requires the interruption of normal office work routines. We thank Mr. Guillory and his staff for their cooperation and patience during this assessment practices survey.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share your questions, comments, and suggestions for improvement with us.

Sincerely,

/s/ David J. Gau

David J. Gau  
Deputy Director  
Property and Special Taxes Department

DJG: jm  
Enclosure

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## **INTRODUCTION**

The assessment practices survey program is one of the State's major efforts to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews (surveys) every county assessor's office at five-year intervals and publishes a report of its findings.

The BOE has also elected to conduct supplemental surveys for the ten largest counties and cities and counties. The supplemental surveys are conducted at least one year after publication of the original report. The supplemental survey includes a review of the recommendations contained in the original report, the assessor's written response to the recommendations, the assessor's current records pertaining to those recommendations, and interviews with the assessor and his staff. These supplemental surveys are made to determine the extent to which the assessor has implemented the recommendations contained in the original report and to identify areas where problems still exist.

In the July 2001 Orange County Assessment Practices Survey report, there were a total of 12 recommendations. Six were in the area of real property valuation and assessment, and six were in business property valuation and assessment. This report reflects the BOE's findings in its supplemental survey of the Orange County Assessor's Office.

## **REAL PROPERTY VALUATION AND ASSESSMENT: RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS**

Following are the original recommendations from our 2001 survey report and the assessor's responses to them. After each is the current status of the assessor's effort to implement the recommendation, as noted during our supplemental survey fieldwork.

### ***Supplemental Assessments***

**RECOMMENDATION 1:** Submit supplemental assessments to the county auditor on a monthly basis.

**Assessor's Response:**

*We agree that supplemental rolls should be published more than twice a year. We have increased the frequency of supplemental roll delivery to about every other month.*

**Current Status:**

The assessor has not implemented this recommendation. For the 2002-03 roll year, the assessor submitted supplemental assessments to the county auditor four times. For the 2001-02 roll year, supplemental assessments were submitted to the county auditor for processing on three occasions and, for the 2000-01 roll year, four occasions. It was the assessor's intent to submit supplemental assessments to the county auditor on a monthly basis, but this task was placed on hold while the assessor converted to a new database program. The assessor anticipates making monthly submissions of supplemental assessments starting with the 2003-04 roll year.

**RECOMMENDATION 2:** Process all supplemental assessments unless exempted by the Board of Supervisors.

**Assessor's Response:**

*We agree with this recommendation and will include all supplemental assessment valuations on the supplemental rolls delivered to the Auditor-Controller. We will also initiate discussions with the Board of Supervisors, the Treasurer-Tax Collector, and the Auditor-Controller to consider a county ordinance to exempt low value supplemental assessments.*

**Current Status:**

The assessor has implemented this recommendation. In the 2001 survey, we found that the assessor was not enrolling low value supplemental assessments. At that time, the Orange County Board of Supervisors had not adopted an ordinance to exempt low value supplemental assessments pursuant to Revenue and Taxation Code section 75.55. The assessor now enrolls all supplemental assessments, both positive and negative, regardless of dollar amount. With this change, the assessor does not see the need to pursue adoption of a county ordinance to exempt low value supplemental assessments.

## **Major Properties**

**RECOMMENDATION 3:** Audit the accounts of properties that have major new construction completed.

### **Assessor's Response:**

*We concur. We will update our current procedures and coordinate this work between the Real Property and Business Property Projects.*

### **Current Status:**

The assessor has implemented this recommendation. In our prior survey, we found that the assessor was valuing properties that had major new construction by the cost approach. The cost factors used in the cost approach were developed by the assessor's staff using unaudited historical cost information which may not represent full economical cost. We recommended that the assessor audit the business accounts of those properties with completed major new construction. The audit would confirm whether the historical cost represented full economic costs for the project. Accomplishing this task requires a coordinated effort between the real property and business property divisions.

Currently, the business property division forwards to the real property division completed business property statements (Form BOE-571L) that report an expenditure for new construction for the current reporting year. In addition, an audit for new construction is conducted during the mandatory audit, performed once every four years, of the business accounts. Any costs for new construction discovered during the audit are submitted to the real property division to determine if any additional value needs to be assessed by the real property division.

To enhance coordination between the business and real property divisions, the assessor has initiated a program to cross train auditor-appraisers in reading commercial and industrial real property records, covering the various cost components included in a typical real property design type. The purpose is to train the auditor-appraiser to recognize real property construction costs when conducting an audit.

## **Possessory Interests**

**RECOMMENDATION 4:** Enroll dedicated parking spaces in government-owned parking facilities.

### **Assessor's Response:**

*We have generally reviewed the government-owned parking space assignments for the County of Orange. The spaces provided are not labeled for a specific person and are not assigned for exclusive use.*

*The parking spaces serve a business purpose to the County in providing proximity to the work place for people that sometimes have intermittent assignments outside the office.*

*We do not agree with the conclusion that parking provided to government employees and elected officials has value over and above that which is generally available to the public.*

**Current Status:**

The assessor has not implemented this recommendation. A taxable possessory interest exists whenever a private party has the exclusive right to beneficial use of real property owned by a public agency. Often, parking spaces are assigned to elected officials by virtue of the office they hold. These dedicated parking spaces meet the criteria of a taxable possessory interest.

***Timeshares***

**RECOMMENDATION 5:** Ensure that timeshares are being assessed in a consistent manner.

**Assessor's Response:**

*We concur. We are assessing timeshare interests in property in a consistent manner within each timeshare project. Because of the variations between the various projects in Orange County in granting and holding title, there exists a written procedure specific to each project. We will consolidate as appropriate the existing assessment procedures for all of the existing timeshare projects in Orange County.*

**Current Status:**

The assessor has implemented this recommendation. In our prior survey, we found that 80 percent of the timeshares in Orange County were in decline-in-value status. The assessor, at that time, did not have a procedure in place to systematically review these properties annually for either base year restoration or further declines in value.

The assessor has developed a program for accumulating market data on each timeshare project in Orange County. Information on the spreadsheet includes: (1) name of timeshare project, (2) assessor's parcel number, (3) unit type or model, (4) parties involved in transfer, (5) sale price, and (6) sale date. This information allows the assessor to identify differences in sales prices due to location and season, and to determine whether the sales are arms-length transactions. With this current market data, the assessor can review timeshares for decline in value annually and be consistent in the assessment of each specific timeshare project.

To aid in training appraisers in valuing timeshare properties, the assessor has also developed a set of written procedures.

**Church, Religious, and Welfare Exemptions**

**RECOMMENDATION 6:** Allow the welfare exemption for the total area of church parsonages.

**Assessor's Response:**

*We concur. As soon as the law was changed through the Board's adoption of Rule 137 in December 1999, the Orange County Assessor Department began applying the exemption as appropriate, and allowed claimants to file for the exemption retroactively for prior years, within the statute of limitations.*

**Current Status:**

The assessor has implemented this recommendation. At the time of the fieldwork for the last survey, the assessor granted the welfare exemption to only those portions of parsonages that were determined to be used for church-related activities only, such as counseling, etc. With BOE's adoption of Property Tax Rule 137 the assessor began applying the exemption to the entire parsonage where appropriate.



## **BUSINESS PROPERTY VALUATION AND ASSESSMENT: RECOMMENDATION, RESPONSE, AND CURRENT STATUS**

Following are the original recommendations from our 2001 survey report and the assessor's responses to them. After each is the current status of the assessor's efforts to implement the recommendations, as noted during our supplemental survey fieldwork.

### ***Audit Program***

**RECOMMENDATION 7:** Bring the section 469 mandatory audit program to current status.

#### **Assessor's Response:**

*We have been working to bring our section 469 mandatory audit workload to current status. We are carrying fewer audits over each year. Since 1997 we have reduced the audit backlog by 55%. It should be noted that no taxable valuations are being lost as a result of delaying audit work. Mandatory audits are all being completed and no years are being lost to the statute of limitations.*

#### **Current Status:**

The assessor has not implemented this recommendation. As of May 2003, a backlog of mandatory audits still existed. Our prior survey indicated that 505 mandatory audits were carried over to the audit production cycle for the 1999-00 roll year. For the 2002-03 roll year, the mandatory audit workload consisted of 1,763 mandatory audits (1,474 audits due as part of the normal four-year audit cycle and 289 audits carried over from prior years). Mandatory audit production has not kept up with the audit workload, and the program remains in arrears.

**RECOMMENDATION 8:** Discontinue the arbitrary minimum assessment policy applicable to audit findings.

#### **Assessor's Response:**

*We concur. We will enroll all differences resulting from section 469 audits*

#### **Current Status:**

The assessor has implemented this recommendation. At the time of the fieldwork for our prior survey, the assessor's office had a policy of not enrolling audit adjustments of less than \$5,000 full value. This practice was discontinued in July 2001. We found that the assessor now enrolls all audit adjustments.

## **Vessels**

**RECOMMENDATION 9:** Annually value pleasure boats at market value.

### **Assessor's Response:**

*We concur. We are improving our process for valuing pleasure boats. We are unable to do a complete survey of each vessel in the county. We rely on the reported cost of initial purchases of vessels and reported costs of enhancements to the vessels from year to year to arrive at market value. In the future, we will attempt to use individual trend factors and will add a review of the current market to our procedure for valuing pleasure boats.*

### **Current Status:**

The assessor has partially implemented this recommendation. His current procedure requires that all vessels with a full cash value of \$100,000 or more be reviewed annually by an auditor-appraiser to establish the current market value. However, for vessels under \$100,000, the appraisal staff relies on the *Vessel Owner's Report* (Form BOE 576-D) and boat valuation guides for the initial valuation. These values are enrolled and depreciated annually in subsequent years by an arbitrary fixed depreciation rate. A fixed depreciation rate applied to all vessels under \$100,000 regardless of class or size may not reflect the vessel's market value.

## **Valuation Factors**

**RECOMMENDATION 10:** Use the BOE's equipment index factors from AH 581 as intended.

### **Assessor's Response:**

*We have studied the variance in roll valuations between application of the complete set of commercial and industrial cost factor indexes versus the application of an average index and found the differences in the results to be insignificant. The California Assessor's Association (CAA) has come to the same conclusion and has published single commercial and industrial cost factor indexes to be used by all 58 counties for the lien date January 1, 2001. We intend to follow the CAA recommendation.*

### **Current Status:**

This recommendation has become obsolete. Starting with the 2002 lien date, the BOE has averaged commercial and industrial index factors into a single category of factors for each table in Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*. Since the 2002 lien date, the annual factors proposed for use by the California Assessors' Association are the same as those found in Assessors' Handbook Section 581.

**RECOMMENDATION 11:** Assess computers using the BOE's recommended computer valuation factors as intended.

**Assessor's Response:**

*We concur. We use the Board of Equalization's (BOE) recommended cost factor index tables for computer valuation, but review the result and then make adjustments that include appraisal judgment. The BOE's minimum percent good factors result in valuations that are sometimes inappropriate and they are modified during our process to fit various situations that occur in the real world.*

**Current Status:**

The assessor has implemented this recommendation. Since the 2000 lien date, the assessor has used BOE recommended tables to value computers. No arbitrary minimum percent good is used with any of the three computer tables.

**Leased Equipment**

**RECOMMENDATION 12:** Ensure that leased equipment retained by the lessee upon lease termination continues to be assessed.

**Assessor's Response:**

*There has been no change in our procedures for tracking the fate of previously leased equipment since the 1997 SBE audit. The SBE has recommended establishing an elaborate system for tracking this type of equipment. The Business Property Statement instructions to business owners, as recommended by the SBE, address this issue in detail (Part III: DECLARATION OF PROPERTY BELONGING TO OTHERS). Designing and implementing a system to check that the business owners are following these instructions is not part of our current planning.*

**Current Status:**

The assessor has not implemented this recommendation. The assessor is currently developing a process that will track leased equipment retained by lessees upon lease termination. This process will provide an annual listing of all terminated leases of equipment with a full cash value of \$250,000 or more.

## **APPENDICIES**

### ***A. County Property Tax Division Survey Group***

#### ***Orange County Supplemental Survey***

##### ***Chief, County Property Tax Division:***

Mickie Stuckey

##### ***Survey Program Director:***

Benjamin Tang

Principal Property Appraiser

##### ***Supplemental Survey Team:***

Ronald Louie

Senior Specialist Property Appraiser

Dale Peterson

Senior Specialist Property Auditor Appraiser

**B. Relevant Statutes**

**Government Code**

**15640. Survey by board of county assessment procedures.**

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

**15641. Audit of Records; Appraisal Data Not Public.**

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

**15642. Research by board employees.**

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

**15643. When surveys to be made.**

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

**15644. Recommendations by board.**

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

**15645. Survey report; final survey report; assessor's report.**

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel.

Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

**15646. Copies of final survey reports to be filed with local officials.**

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

## **ASSESSOR'S RESPONSE TO BOE'S FINDINGS**

As noted in the Introduction to this report, the most recent assessment practices survey report for Orange County was published July 2001 and included the assessor's initial response to the findings and recommendations contained in that report. The assessor also elected to file a response to this supplemental survey, which begins on the next page. The BOE has no comments on this response.



December 30, 2003

Mickie Stuckey, Chief  
County Property Tax Division  
State Board of Equalization  
P. O. Box 942879  
Sacramento CA 94279-0062

Subject: Orange County Supplemental Survey Response

Dear Ms. Stuckey:

Pursuant to Section 15645 of the California Government Code, we are pleased to respond to the State Board of Equalization's draft Supplemental Assessment Practices Survey for 2003. We have reviewed your draft and find it substantially correct.

Generally, the comments expressed under Current Status in the Supplemental Assessment Practices Survey Report are an accurate reflection of our department's progress on the recommendations at the time of the survey team's visit. Our response to the survey findings is presented on the attached two pages.

I wish to thank the survey team for the courteous and professional manner in which they conducted the survey.

If you have any questions regarding our survey response, please call me at (714) 834-2734.

Sincerely,

/s/ Webster J. Guillory

Webster J. Guillory  
County Assessor

Enclosure(s): 1. Response to survey by SBE – Real Property Division  
2. Response to survey by SBE – Business Property Division

## REAL PROPERTY VALUATION AND ASSESSMENT

SBE Recommendation 1: Submit supplemental assessments to the county auditor on a monthly basis.

SBE's Current Status: The assessor has not implemented this recommendation.

Assessor's Response: We agree that supplemental rolls should be published more than twice a year. We have increased the frequency of supplemental roll delivery to about every other month.

SBE Recommendation 2: Process all supplemental assessments unless exempted by the Board of Supervisors.

SBE's Current Status: The assessor has implemented this recommendation.

Assessor's Response: We Concur.

SBE Recommendation 3: Audit the accounts of properties that have major new construction completed.

SBE's Current Status: The assessor has implemented this recommendation.

Assessor's Response: We Concur.

SBE Recommendation 4: Enroll dedicated parking spaces in government-owned Parking facilities.

SBE's Current Status: The assessor has not implemented this recommendation.

Assessor's Response: We have generally reviewed the government-owned parking space assignments for the County of Orange. The spaces provided are not labeled for a specific person and are not assigned for exclusive use. The parking spaces serve a business purpose to the County in providing proximity to the work place for people that sometimes have intermittent assignments outside the office. We do not agree with the conclusion that parking provided to government employees and elected officials has value over and above that which is generally available to the public.

SBE Recommendation 5: Ensure that timeshares are being assessed in a consistent manner.

SBE's Current Status: The assessor has implemented this recommendation.

Assessor's Response: We Concur.

SBE Recommendation 6: Allow the welfare exemption for the total area of church parsonages.

SBE's Current Status: The assessor has implemented this recommendation.

Assessor's Response: We Concur.

## BUSINESS PROPERTY VALUATION AND ASSESSMENT

SBE Recommendation 7: Bring the section 469 mandatory audit program to current status.

SBE's Current Status: The assessor has not implemented this recommendation.

Assessor's Response: We have been working to bring our section 469 mandatory audit workload to current status. Our anticipated carryover for the coming year is 150 or less mandatory audits. We have applied for the AB589 Grant and some of those funds will be applied towards hiring additional Auditor-Appraisers to help with this workload.

SBE Recommendation 8: Discontinue the arbitrary minimum assessment policy applicable to audit findings.

SBE's Current Status: The assessor has implemented this recommendation.

Assessor's Response: We Concur.

SBE Recommendation 9: Annually value pleasure boats at market value.

SBE's Current Status: The assessor has partially implemented this recommendation.

Assessor's Response: We concur. We are improving our process for valuing pleasure boats. This year we will value 100% of all pleasure boats \$100,000 or more and at least 50% of all pleasure boats under \$100,000.

SBE Recommendation 10: Use the BOE's equipment index factors from AH 581 as intended.

SBE's Current Status: This recommendation has become obsolete.

Assessor's Response: We Concur.

SBE Recommendation 11: Assess computers using the BOE's recommended computer valuation factors as intended.

SBE's Current Status: The assessor has implemented this recommendation.

Assessor's Response: We Concur.

SBE Recommendation 12: Ensure that leased equipment retained by the lessee upon lease termination continues to be assessed.

SBE's Current Status: The assessor has not implemented this recommendation

Assessor's Response: The Assessor has developed a process that will track leased equipment retained by lessees when their lease terminates. This process will provide an annual listing of all terminated leases of equipment with a full cash value of \$250,000 or more.